

**REPORT OF THE AUDIT OF THE  
BELL COUNTY  
CLERK**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BELL COUNTY CLERK**

**For The Year Ended  
December 31, 2004**

The Auditor of Public Accounts has completed the Bell County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$3,648 from the prior year, resulting in excess fees of \$97,281 as of December 31, 2004. Revenues increased by \$317,539 from the prior year and expenditures increased by \$321,187.

#### **Debt Obligations:**

Lease agreements totaled \$20,544 as of December 31, 2004. Future principal and interest payments of \$20,544 are needed to meet these obligations.

#### **Report Comments:**

- The Clerk Should Present The Annual Settlement To The Fiscal Court For Approval
- The County Clerk Should Have A Written Agreement To Protect Deposits
- The Clerk's Office Lacks Adequate Segregation of Duties

#### **Deposits:**

The Clerk did not have a written surety agreement to protect deposits.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. Kelley, Bell County Judge/Executive  
Honorable Joan Asher Cawood, Bell County Clerk  
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bell County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable William P. Kelley, Bell County Judge/Executive  
Honorable Joan Asher Cawood, Bell County Clerk  
Members of the Bell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Clerk Should Present The Annual Settlement To The Fiscal Court For Approval
- The County Clerk Should Have A Written Agreement To Protect Deposits
- The Clerk's Office Lacks Adequate Segregation of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bell County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 6, 2005



BELL COUNTY  
 JOAN ASHER CAWOOD, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services	\$	12,934	
Fiscal Court			57,666
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	541,434	
Usage Tax		1,651,460	
Tangible Personal Property Tax		1,263,171	
Lien Fees		5,418	
Other-			
Fish and Game Licenses		9,874	
Marriage Licenses		11,559	
Occupational Licenses		325	
Legal Process State Fees		6,519	
Deed Transfer Tax		49,759	
Delinquent Tax		487,236	4,026,755
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		12,009	
Real Estate Mortgages		25,613	
Chattel Mortgages and Financing Statements		61,511	
Powers of Attorney		1,047	
Liens		4,671	
All Other Recordings		16,735	
Charges for Other Services-			
Notary Fees		6,570	
Filing Fees		1,470	
Other Copywork - PVA		348	
Copywork		12,673	142,647
Other:			
Miscellaneous			3,542
Interest Earned			1,230
Total Revenues	\$		4,244,774

The accompanying notes are an integral part of this financial statement.

BELL COUNTY  
 JOAN ASHER CAWOOD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 422,896

Usage Tax 1,601,861

Tangible Personal Property Tax 433,172

Licenses, Taxes, and Fees-

Fish and Game 10,335

Delinquent Tax 76,349

Legal Process Tax 18,988 \$ 2,563,601

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 131,813

Delinquent Tax 65,323

Deed Transfer Tax 47,270

Occupational Licenses 220 244,626

Payments to Other Districts:

Tangible Personal Property Tax \$ 647,343

Delinquent Tax 203,646 850,989

Payments to Sheriff 31,369

Payments to County Attorney 70,161

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 183,713

Part-Time Salaries 13,672

Overtime 24,610

Employee Benefits-

Employer's Share Social Security 21,644

Contracted Services-

Extra Help 475

Accounting Services 3,520

Materials and Supplies-

Office Supplies 2,161

The accompanying notes are an integral part of this financial statement.

BELL COUNTY  
 JOAN ASHER CAWOOD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-		
Conventions and Travel	\$	3,908
Election Expenses		30,312
Preparing Tax Bills		3,399
Miscellaneous		3,170
Dues		900
Capital Outlay-		
Office Equipment		18,983
	\$	<u>310,467</u>
Total Expenditures	\$	4,071,213
Less: Disallowed Expenditures		
Miscellaneous		<u>(6)</u>
Total Allowable Expenditures		<u>4,071,207</u>
Net Revenues		173,567
Less: Statutory Maximum		<u>69,593</u>
Excess Fees		103,974
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>3,093</u>	<u>6,693</u>
Excess Fees Due County for 2003		97,281
Payment to Fiscal Court - April 11, 2005		84,000
Payment to Fiscal Court - May 9, 2005		<u>13,281</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

BELL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the County Clerk securing the Clerk's interest in the surety bond provided as collateral.

Note 4. Leases

The Clerk's office was committed to the following lease agreements as of December 31, 2004:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2004</u>
Copiers	351.68	39 months	02/13/08	13,716
Computers	569.00	12 months	11/30/05	6,828

BELL COUNTY  
JOAN ASHER CAWOOD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Clerk Should Present The Annual Settlement To The Fiscal Court For Approval

The clerk did not present an annual settlement to the fiscal court for approval by March 15 as required by KRS 64.152. We did find that the clerk prepared and published the annual settlement as required by KRS 424.220. However, it should also be submitted to the fiscal court for approval in accordance with KRS 64.152. We recommend that the clerk present the annual financial statement to the fiscal court for approval by March 15 each year.

*County Clerk's Response: This was oversight.*

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of July 7, 2004, the County Clerk had bank deposits of \$279,189; FDIC insurance of \$100,000; and surety bond provided as collateral pledged of \$2,500,000. Even though the County Clerk obtained sufficient collateral of \$2,500,000, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the surety bond provided as collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Clerk's Response: I was not aware that a separate written agreement was required for surety bond. I will take care of this now that I am aware.*

BELL COUNTY  
JOAN ASHER CAWOOD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Clerk's Office Lacks Adequate Segregation of Duties

We conclude the internal control structure lacks an adequate segregation of duties because during part of calendar year 2004 one employee was solely responsible for preparing the daily check out sheets, preparing the daily deposits, preparing the receipts and disbursements ledgers, preparing the monthly bank reconciliations and for preparing the delinquent tax reports and the tangible personal property tax reports. The clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties compromises the internal control structure of the clerk's office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The clerk should consider delegating some duties to other employees to help strengthen the internal control structure of her office. For example, the duties of recording transactions, preparing daily check out sheets, preparing deposits, preparing bank reconciliation, and preparing reports could be delegated among different employees. We recommend the clerk implement and develop procedures to help strengthen the internal control structure of her office.

*County Clerk's Response: During calendar year 2004, changes were made to resolve this. The correction will continue through calendar year 2005.*

PRIOR YEAR:

Lacks Adequate Segregation of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. Kelley, Bell County Judge/Executive  
Honorable Joan Asher Cawood, Bell County Clerk  
Members of the Bell County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees – regulatory basis of the Bell County Clerk for the year ended December 31, 2004, and have issued our report thereon dated May 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The Clerk's Office Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the above reportable condition to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Clerk Should Present The Annual Settlement To The Fiscal Court For Approval
- The County Clerk Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 6, 2005

